

## **PUBLIC DISCLOSURE**

**January 11, 2010**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**American Bank of the North  
Certificate Number: 05216**

**117 Central Avenue  
Nashwauk, Minnesota 55769-1127**

**Federal Deposit Insurance Corporation  
2345 Grand Boulevard, Suite 1200  
Kansas City, Missouri 64108**

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

## TABLE OF CONTENTS

General Information .....	1
Institution's Rating.....	2
Scope of Examination .....	3
Description of Institution .....	4
Description of Assessment Area .....	6
Conclusions with Respect to Performance Criteria	
I. Lending Test .....	8
II. Community Development Test.....	15
Fair Lending or Other Illegal Credit Practices .....	19

## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **American Bank of the North, Nashwauk, Minnesota**, prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **January 11, 2010**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

## INSTITUTION RATING

**INSTITUTION'S CRA RATING:** This institution is rated: Satisfactory.

**The Lending Test is rated:** Satisfactory.

**The Community Development Test is rated:** Satisfactory.

The bank's CRA performance depicts a satisfactory record of helping to meet the credit needs of its assessment areas, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The following supports this rating:

- The bank's average net loan-to-deposit ratio since the last evaluation demonstrates a more than reasonable willingness to lend given the bank's financial condition and size, external economic factors, assessment area credit needs, and comparisons to similarly situated lenders.
- A substantial majority of loans and other lending-related activities are in the institution's assessment areas.
- Given the demographics of the assessment areas, the distribution of borrowers reflects a reasonable penetration among businesses of different sizes and individuals of different income levels, including low- and moderate-income borrowers.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The bank has not received any written CRA-related complaints since the last evaluation. Therefore, this performance criterion was not evaluated.
- The bank's community development performance demonstrates adequate responsiveness to the community development needs of its assessment areas through community development loans, qualified investments, and community development services, considering the bank's capacity and the need and availability of such opportunities for community development in the assessment areas.

## SCOPE OF EXAMINATION

The scope of the CRA evaluation was determined through a review of the bank's Report of Condition and discussions with management. Two loan types were selected for review. Loan samples were selected based on a review of the loan categories reported on the September 30, 2009, Report of Condition and outstanding FDIC and interagency policy guidance. Commercial and industrial loans were combined with non-farm, nonresidential properties and reviewed as one category, since these types of loans are originated to similar borrowers. These types of loans represent 49 percent of the bank's loan portfolio. The bank is a Home Mortgage Disclosure Act (HMDA) reporter; therefore HMDA-reportable residential real estate loans were the second product reviewed. These loans comprise 20 percent of the bank's loan portfolio. The remainder of the portfolio consists of construction and land development, consumer, obligations of states and political subdivisions in the U.S., agricultural, and other loans. The remainder of the loan products were not reviewed for this evaluation because they do not represent a significant percentage of the total loan portfolio in terms of dollar volume.

In order to evaluate the bank's record of lending, a sample of small business loans was selected for analysis.<sup>1</sup> The sample of 39 small business loans totaling \$3,739,000 was taken from a universe of 291 loans totaling \$25,552,000. The loans from the sample were originated in the twelve month time period from November 20, 2008, to November 19, 2009, which was the ending date of the most current loan trial provided by the financial institution. The analysis did not include small business loans originated and sold or originated and paid off during the review period as information on these loans was not readily available.

In addition, all of the bank's HMDA-reportable residential real estate loans from 2007, 2008, and the first three quarters of 2009 were analyzed. There were 383 loans originated in 2007 with a dollar volume of \$36,390,000, 447 loans originated in 2008 for a dollar volume of \$53,542,000, and 354 loans originated through September 30, 2009, for a dollar volume of \$46,909,000. Residential real estate lending is a smaller portion of the bank's loan portfolio compared to commercial lending, so it carried less weight in the overall analysis.

Lending activity based on the number of loans rather than on the dollar volume is emphasized given that the number of loans more clearly represents the distribution of the bank's lending efforts. Generally, loans to smaller businesses are for smaller dollar amounts than loans to larger businesses. Therefore, an analysis using the dollar volume of loans would not provide a representative assessment of the bank's lending efforts.

Examiners also used a community contact interview that was conducted in conjunction with other evaluations to gather perceptions on credit needs and the performance of local banks in meeting those needs. The community member also provided general economic and demographic information, as well as any other information that has impacted the economic environment in the

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<sup>1</sup> A small business loan is a loan of \$1 million or less that is included in "loans to small businesses" as defined in the instructions for preparation of the Consolidated Report of Condition and Income.

area. Bank management was also interviewed to help evaluate current economic conditions and assess the manner in which the bank is responding to credit needs of the assessment area. Examiners also reviewed pertinent local information obtained from U.S. Census demographic data.

## DESCRIPTION OF INSTITUTION

American Bank of the North (ABN) is privately held and is a subsidiary of Mesaba Bancshares, Inc., Biwabik, Minnesota, a multi-bank holding company. In addition to the main office in Nashwauk, Minnesota, there are 12 full service and 4 limited service offices located throughout northeastern Minnesota. Branch offices are located in Biwabik, Bovey, Calumet, Chisholm, Cook, Keewatin, Mountain Iron, and Orr, and multiple locations are located in Nashwauk, Grand Rapids, and Hibbing. There are also two administrative offices located in Grand Rapids and Hibbing, as well as a Data Processing Center in the Nashwauk East Office. The bank also operates a network of 10 cash-dispensing Automated Teller Machines, including two that are deposit-taking.

As of September 30, 2009, the bank had total assets of \$646,191,000, net loans of \$565,263,000, and total deposits of \$578,917,000. Since September 30, 2006, the bank's total assets have grown by 34 percent, net loans by 29 percent, and total deposits by 31 percent. The increase in assets is attributed to the addition of several branch offices since the previous evaluation. Other than the legal lending limit, there are no financial or legal impediments that would restrict the bank's ability to lend in its assessment areas. At the previous FDIC CRA Performance Evaluation, dated September 25, 2006, the institution was rated "Satisfactory".

The bank offers a variety of deposit products, services, and loan products, including commercial, residential real estate, and consumer loans. These products are consistent with its size, financial capacity, and geographic location.

The institution is very active in a number of special loan programs available through the Small Business Administration (SBA). These loan programs are generally designed to assist smaller businesses that may not qualify for loans through conventional financing methods. The bank is listed as a SBA Preferred Lender (PL). PLs are nominated based on their historical record with the SBA. These carefully selected lenders must have demonstrated a proficiency in processing and servicing SBA-guaranteed loans. Since the prior performance evaluation, the ABN has also begun working with the SBA using its American' Recovery Capital Loan Program (ARC) to help small businesses in distress. ARC loans are interest free to the borrower and are designed to drive economic recovery by retaining and creating jobs.

In addition to in-house residential real estate loans, the bank also provides access to the secondary market for residential real estate borrowers through an agreement with another lending institution and Fannie Mae (Federal Housing Finance Agency). These arrangements provide options for different types and terms of residential real estate loans that the bank does not offer.

The institution also recently entered into an agreement with the Federal Home Loan Bank (FHLB) for their Affordable Homeownership Program (AHP). This program will assist two local agencies in disbursing funds put forth by the FHLB to help new homeowners improve existing homes in order to provide more affordable housing to the area.

The bank operates in a highly competitive market. There are numerous financial institutions, as well as non-bank financial companies. Bank management stated that they consider Grand Rapids State Bank, Queen City Federal Savings, and Wells Fargo Bank to be their primary competition for both deposits and loans.

As displayed in Table 1, the institution is primarily a commercial lender; however, residential real estate loans are also an important business focus. Loans originated through the previously discussed residential agreements would not be reflected in the bank's loan portfolio.

<b>Table 1 – Loan Distribution as of September 30, 2009</b>		
<b>Loan Type</b>	<b>Dollar Amount</b>	<b>Percent of Total Loans</b>
Construction and Land Development	\$112,059	20%
Secured by Farmland	\$792	<1%
Revolving, Open-end Loans secured by 1-4 Family Residential	\$23,126	4%
Secured by First Liens	\$106,082	18%
Secured by Junior Liens	\$13,275	2%
Secured by Multi-Family Residential Properties	\$3,273	<1%
Non-farm, Nonresidential Properties	\$193,028	34%
Loans to Finance Agricultural Production	\$13	<1%
Commercial and Industrial Loans	\$85,237	15%
Credit Cards	\$3,977	1%
Other Revolving Credit Plans	\$575	<1%
Other Consumer (includes single pay, installment, and student loans)	\$11,128	2%
Obligations of States and Political Subdivisions in the U.S.	\$18,648	3%
All Other Loans (exclude consumer loans)	\$3,400	1%
Lease Financing Receivables	\$602	<1%
<b>Total Loans</b>	<b>\$575,215</b>	<b>100%</b>

*Source: Report of Condition (dollars in 000s)*

## DESCRIPTION OF AMERICAN BANK OF THE NORTH'S ASSESSMENT AREA

*The Community Reinvestment Act of 1977, as amended, requires banks to identify one or more assessment areas on which its federal regulatory agency will evaluate the bank's CRA performance. The area(s) defined by the bank must include its main office, branches, and other deposit taking remote service facilities, as well as, the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans. The assessment area must always consist of one or more whole geographies identified as Census Tracts (CTs).*

ABN has two designated assessment areas. These assessment areas are contiguous, but are listed as separate areas due to regulatory reasons, as one area is part of the Duluth Metropolitan Statistical Area (MSA). The first assessment area consists of all of Itasca County and CT 9902 in the northwestern portion of Aitkin County. This area is located in a non-MSA area and includes 11 CTs – three of which are moderate-income CTs and the remaining are middle-income CTs.<sup>2</sup> CT 9902 in Aitkin County and CTs 9802 and 9805 located in Itasca County are the moderate-income CTs. The bank's offices in Nashwauk, Keewatin, Grand Rapids, Bovey, and Calumet are within the non-MSA portion of the AA. All of the middle-income CTs in the Itasca County have been considered distressed geographies since 2008 due to unemployment.<sup>3</sup>

The MSA assessment area comprises all of St. Louis County except for those CTs that are directly surrounding the city of Duluth, Minnesota, in the southeastern corner of St. Louis County. It includes 27 CTs, of which there are 6 moderate-income CTs and 21 middle-income CTs. Two of the moderate-income CTs (122 and 125) are located in the Hibbing-Chisholm area. Two more of the moderate-income CTs (130 and 133) are located in the Virginia-Eveleth area. The remaining two moderate-income CTs (141 and 153) are located along the eastern edge of St. Louis County. The bulk of the population of the MSA is located in the city of Duluth, Minnesota, and the bank does not include the city within its assessment area. The MSA assessment area includes the Hibbing, Chisholm, Mountain Iron, Biwabik, Cook, and Orr branch offices.

Although the one assessment area is part of an MSA, the area is very similar to the non-MSA area. The two assessment areas are contiguous and have extremely similar characteristics in

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<sup>2</sup> A CT's income level is determined by comparing the 2000 median family income (MFI) for each individual CT with the 2000 MFI for that portion of the state. According to the U.S. Census, the 2000 MFI for non-metropolitan Minnesota was \$46,129 and the Duluth MSA was \$46,478. The breakdown is as follows: Low Income: <50 percent of the MFI; Moderate Income: ≥50 percent and <80 percent of the MFI; Middle Income: ≥80 percent and <120 percent of the MFI; and Upper Income: ≥120 percent of the MFI.

<sup>3</sup> "Distressed non-metropolitan middle-income" geographies are those located in counties that meet one or more triggers that generally reflect the "distress criteria" used by the Community Development Financial Institutions (CDFI) Fund, but which will utilize annual information where possible. The distress triggers are: (1) an unemployment rate of at least 1.5 times the national average; (2) a poverty rate of 20 percent or more; (3) a population loss of 10 percent or more between the previous and most recent decennial census, or a net migration loss of 5 percent or more over the five-year period preceding the most recent census.



terms of communities, economies, businesses, land use, and population. The areas also have similar climates and topography, consisting primarily of forest land, lakes, and mining areas, with limited acreage available for farming or grazing livestock. The bank's performance in the MSA and non-MSA areas was reviewed separately, and the results indicate that there are no significant differences or anomalies between the two assessment areas. Therefore, unless otherwise noted, data for both assessment areas is presented together for the remainder of this evaluation, and the term "assessment area" will mean the two combined areas.

The assessment area includes portions of American Indian reservations for three different tribes. The Bois Forte Band of Chippewa lives on reservations at Nett Lake, Vermillion Lake, and Deer Creek, all of which are either in or partially in the bank's assessment area. They are served by the bank's offices in Orr and Cook, Minnesota. The population centers of the Leech Lake Reservation and the Fond du Lac Reservation are primarily outside the bank's assessment area, and members live closer to other financial institutions.

The assessment area has heavy dependency on the taconite mining industry, which has suffered with the downturn in the national and international economies over the past several years. Management indicated that the downturn in the overall economy has also affected other industries in the area such as retail and tourism. Commercial customers that cater to the mining and tourism industries have suffered, with their customers being unable to keep their accounts current. Healthcare continues to be a growing industry due to the aging population; but, this industry has also seen some troubled times during 2008 and 2009 with patients being unable to pay. Management reported that the largest employers in the assessment area were the taconite mines, medical facilities, local schools, public utilities, and local government. U.S. Steel is the largest private employer in the assessment area. Bank management stated they are hopeful for the future given that the taconite mines are beginning to see an upturn in activity in recent months putting people back to work.

The 2000 U.S. Census lists the assessment area's population at 128,150 individuals living in 54,140 households. According to the 2000 U.S. Census, the median housing value for homes within the assessment area was \$71,412, with 64 percent of housing units owner occupied, 13 percent renter occupied, and 23 percent vacant. According to the 2000 U.S. Census, approximately 12 percent of the families within the assessment area have incomes below the poverty level.<sup>4</sup>

According to the Bureau of Labor Statistics the unemployment rate for the third quarter of 2009 was 8.6 percent in Aitkin County, 10.1 percent in Itasca County, and 9.1 percent in St. Louis County. The statewide unemployment rate for Minnesota was 7.5 percent, with a nationwide unemployment average of 9.6 percent for the same time period. During first quarter 2009, the unemployment rates for Aitkin and Itasca Counties surpassed 13 percent.

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<sup>4</sup> Poverty level is an established dollar threshold rather than a percentage based calculation of the median family income. The U.S. Department of Health and Human Services lists the poverty level threshold in 2009 for a family of four as \$22,050. This figure is determined on a national basis and is not adjusted regionally.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

*An intermediate small institution is evaluated under two tests – the Lending Test and the Community Development Test. Under the Lending Test, five criteria are used to evaluate the bank’s effectiveness in meeting the financial needs of consumers, agricultural borrowers, and commercial entities in the assessment area – loan-to-deposit ratio, lending in the assessment area, borrower profile, geographic distribution, and response to CRA-related complaints. Under the Community Development Test, there are three criteria – community development loans, qualified investments, and community development services. Furthermore, a bank’s compliance with anti-discrimination laws and regulations is considered when evaluating performance. In addition to an overall rating, individual ratings are assigned for each test. Comments supporting the conclusions for each criterion are detailed on the following pages.*

### I. LENDING TEST

ABN’s performance under the Lending Test is rated “Satisfactory.” This determination was made based on the bank’s performance in the five criteria described above.

#### LOAN-TO-DEPOSIT RATIO

ABN’s loan-to-deposit ratio demonstrates a more than reasonable willingness to lend given the institution’s financial condition and size and comparisons to similarly situated lenders.<sup>5</sup> According to Report of Condition data, the institution’s average net loan-to-deposit ratio from September 30, 2006, to September 30, 2009, was 105 percent. The quarterly net loan-to-deposit ratio for ABN reached a high of 117 percent on March 31, 2008, and dropped to a low of 98 percent on September 30, 2009. The fluctuations are attributed to seasonal lending needs and the bank’s increased growth due to the addition of new offices. Table 2 displays ABN’s average net loan-to-deposit ratio when compared to other similarly situated lenders located in the assessment area.

<b>Table 2 – Total Assets and Average Net Loan-to-Deposit Ratios for the Subject Bank and Similarly Situated Institutions</b>		
<b>Bank City, State</b>	<b>Total Assets (9/30/09)</b>	<b>Average Net Loan-to-Deposit Ratio (9/30/06 – 9/30/09)</b>
The First National Bank of Deerwood Deerwood, MN	\$235,333	95%
Grand Rapids State Bank Grand Rapids, MN	\$239,320	65%
<b>American Bank of the North Nashwauk, MN</b>	<b>\$646,191</b>	<b>105%</b>

*Source: Reports of Condition (dollars in 000s). Institutions listed alphabetically by office location*

<sup>5</sup>Similarly situated lenders were chosen based on similarities in the market served, loan portfolio composition, product offering, asset size, and/or number of offices.

## LENDING WITHIN THE ASSESSMENT AREA

To determine the bank's record of lending within the assessment area, examiners reviewed the small business and HMDA-reportable residential real estate loans described earlier. ABN is helping to meet the credit needs of its assessment areas by originating a substantial majority of the small business and HMDA-reportable residential real estate loans reviewed within its assessment area. Overall, ABN's performance is more than reasonable given the bank's size and financial condition as well as the credit needs and size of the assessment area. The institution's performance demonstrates its willingness to reinvest deposits back into the local communities through loans.

The analysis in Table 3 reveals that the bank is originating a substantial majority of its small business and residential loans within the assessment area, whether measured by number or dollar volume.

<b>Table 3 – Lending Within the Assessment Area (AA)</b>						
<b>Loan Type</b>	<b>Number Reviewed</b>	<b>Number in AA</b>	<b>Percent by Number in AA</b>	<b>Dollar Volume Reviewed</b>	<b>Dollar Volume in AA</b>	<b>Percent by dollar in AA</b>
Small Business*	39	33	85%	\$3,739	\$2,818	75%
HMDA 2007**	383	365	95%	\$36,390	\$31,526	87%
HMDA 2008**	447	428	96%	\$53,542	\$46,140	86%
HMDA 2009**	354	338	95%	\$46,909	\$44,352	95%

Source: \* FDIC sample from loan trial balance\*\* Loan Application Registers (LAR) for 2007, 2008, and 1<sup>st</sup>, 2<sup>nd</sup>, and 3<sup>rd</sup> quarters of 2009 (dollars in 000s)

## LENDING TO BUSINESS OPERATIONS OF DIFFERENT SIZES AND CONSUMERS OF DIFFERENT INCOMES

A review of loans included in the analysis above that were extended to borrowers located within the bank's assessment area reveals that ABN appears committed to helping meet the credit needs of businesses of varying sizes and residential real estate borrowers of different income levels. Gross annual revenues, which were obtained from loan files or bank management estimates, were used as a determinant for the size of the business operations. For the residential loans located within the assessment area, income information was obtained from the LARs for each year or partial year reviewed. Those incomes that are listed as Not Applicable (NA) are those loans where the bank was not required to report the incomes for various reasons including corporations, multi-family dwellings, and bank employees. Lending performance data reveals that a reasonable number and dollar volume of loans have been extended to small business and low- and moderate-income residential real estate borrowers.

### Small Business Loans

The analysis of small business loans, detailed in Table 4, reveals that ABN is making a reasonable effort to lend to businesses of different revenue levels located within its assessment area. From the analysis of the 33 small business loans that were located within the assessment area, approximately 24 percent by number were extended to business operations having gross annual revenues below \$100,000. This performance is below the 2009 D&B data from reporting businesses, which indicates that approximately 59 percent of the businesses within the assessment area, by number, had gross annual revenues below \$100,000. The bank's performance is considered reasonable, since many small businesses may not qualify for financing or even need financing to continue with operations. Discussions with bank personnel did not reveal any lending practices that would prevent lending to small businesses.

As indicated earlier, ABN participates in special loan programs through the SBA and other sources. As of the date of this evaluation, there are 149 SBA loans outstanding totaling \$19,837,000. This number and volume of lending further demonstrates the institution's commitment to small businesses, as many of the special loan programs through SBA are designed to assist smaller businesses that may not qualify for loans through conventional financing methods. Based on a Minnesota Lender Activity Report published by the SBA, as of September 2009, ABN was recognized as one of the top Minnesota banks in SBA lending.

<b>Table 4 – Lending Distribution Based on Revenue Size of Business</b>					
<b>Gross Annual Revenue</b>	<b>Percent of Businesses in Assessment Area*</b>	<b>Bank's Small Business Lending**</b>			
		<b>Number</b>	<b>Percent</b>	<b>Dollars</b>	<b>Percent</b>
\$0 < \$100	59%	8	24%	\$179	6%
\$100 < \$250	24%	5	15%	\$470	17%
\$250 < \$500	8%	5	15%	\$327	12%
\$500 and up	9%	15	46%	\$1,842	65%
Total	100%	33	100%	\$2,818	100%

Source: \* 2009 D&B data \*\* FDIC sample from loan trial balance (dollars in 000s)

\*Includes only those businesses that reported revenues (19% of the total businesses did not report)

### HMDA-reportable Loans

Analysis reveals that ABN has a reasonable amount of lending overall to borrowers of different income levels within its assessment area, including low- and moderate-income borrowers for HMDA-reportable loans.<sup>6</sup> The bank's performance when compared with 2000 U.S. Census Data and HMDA peer lending data is detailed in Tables 5, 6, and 7.

<sup>6</sup> The income level of a borrower is based on gross income as a percent of the HUD adjusted MFI for the MSA or non-MSA portion of the state for the year in which the loan was originated. The MFI for the non-metropolitan portion of Minnesota for 2007 was \$54,700, for 2008 was \$56,700, and for 2009 is \$58,500. The MFI for the Duluth MSA for 2007 was \$55,500, for 2008 was \$58,900, and for 2009 is \$59,900. Low income: < 50 percent of the MFI; moderate: ≥ 50 percent and < 80 percent of the MFI; middle income: ≥ 80 percent and < 120 percent of the MFI; upper income: ≥ 120 percent of the MFI.

Lending distribution based on borrower's income for 2007, shown in Table 5, illustrates that 14 percent by number and 7 percent by dollar of the residential real estate loans were originated to low-income borrowers. HMDA peer lending for 2007 by number and dollar was at 11 and 6 percent, respectively. An analysis of the bank's performance in lending to moderate-income borrowers shows that, while slightly lower, it is very comparable to peer lending with 17 percent by number and 12 percent by dollar originated to moderate-income borrowers.

<b>Table 5 – Lending Distribution Based on Borrower's Income</b>							
<b>Gross Annual Income</b>	<b>Percent of Families in Assessment Area*</b>	<b>Peer Lending**</b>		<b>Bank's 2007 HMDA Lending***</b>			
		<b>Percent by Number</b>	<b>Percent by Dollars</b>	<b>Number</b>	<b>Percent</b>	<b>Dollars</b>	<b>Percent</b>
Low	20%	11%	6%	50	14%	\$2,237	7%
Moderate	20%	22%	16%	63	17%	\$3,938	12%
Middle	25%	27%	24%	98	27%	\$5,228	17%
Upper	35%	37%	48%	123	34%	\$13,421	43%
N/A		3%	6%	31	8%	\$6,702	21%
Total	100%	100%	100%	365	100%	\$31,526	100%

Source: \* 2000 U.S. Census \*\* 2007 HMDA Aggregate Disclosure \*\*\* 2007 HMDA LAR (dollars in 000s)

Lending distribution based on borrower's income for 2008, shown in Table 6, illustrates that 11 percent by number and 5 percent by dollar of the residential real estate loans were originated to low-income borrowers. HMDA peer lending for 2008 by number and dollar was at 12 and 6 percent, respectively. An analysis of the bank's performance in lending to moderate-income borrowers shows that, while slightly lower, it is very comparable to peer lending with 19 percent by number and 11 percent by dollar originated to moderate-income borrowers.

<b>Table 6 – Lending Distribution Based on Borrower's Income</b>							
<b>Gross Annual Income</b>	<b>Percent of Families in Assessment Area*</b>	<b>Peer Lending**</b>		<b>Bank's 2008 HMDA Lending***</b>			
		<b>Percent by Number</b>	<b>Percent by Dollars</b>	<b>Number</b>	<b>Percent</b>	<b>Dollars</b>	<b>Percent</b>
Low	20%	12%	6%	48	11%	\$2,277	5%
Moderate	20%	23%	16%	79	19%	\$5,005	11%
Middle	25%	27%	24%	98	23%	\$8,308	18%
Upper	35%	35%	47%	137	32%	\$16,670	36%
N/A		3%	7%	66	15%	\$13,880	30%
Total	100%	100%	100%	428	100%	\$46,140	100%

Source: \* 2000 U.S. Census \*\* 2008 HMDA Aggregate Disclosure \*\*\* 2008 HMDA LAR (dollars in 000s)

Peer lending data was not available for 2009. Therefore, Table 7 only illustrates the comparison of the bank's lending with 2000 U.S. Census data. The 2000 U.S. Census shows 20 percent of the families in the assessment area are low income and 20 percent of the families are considered moderate income. As shown here and in the two previous tables, the bank's lending percentages for all three years is lower than U.S. Census data. It should be noted that 12 percent of the

families in the assessment area are considered to be below the poverty level. These individuals may have trouble qualifying for or may not be requesting residential real estate financing.

It should also be noted that ABN is in competition with other area financial institutions for all loan types, including residential real estate. The analysis concluded that the bank's record of originating HMDA-reportable residential real estate loans to borrowers of varying income levels, including low- and moderate-income borrowers, is considered reasonable.

<b>Table 7 – Lending Distribution Based on Borrower's Income</b>					
<b>Gross Annual Income</b>	<b>Percent of Families in Assessment Area*</b>	<b>Bank's 2009 HMDA Lending**</b>			
		<b>Number</b>	<b>Percent</b>	<b>Dollars</b>	<b>Percent</b>
Low	20%	43	13%	\$2,643	6%
Moderate	20%	64	19%	\$4,413	10%
Middle	25%	83	24%	\$7,357	17%
Upper	35%	105	31%	\$16,633	37%
N/A		43	13%	\$13,306	30%
Total	100%	338	100%	\$44,352	100%

Source: \*2000 U.S. Census and\*\* LAR for 1<sup>st</sup>, 2<sup>nd</sup>, and 3<sup>rd</sup> quarters of 2009 (dollars in 000s)

## **GEOGRAPHIC DISTRIBUTION OF LOANS**

The sampled small business loans and the HMDA-reportable loans described within the Scope section of this evaluation and located within the assessment area were further analyzed to determine whether the institution's lending activity is satisfactorily dispersed throughout its assessment area. Based on the analysis of the data reviewed, ABN's geographic distribution of loans is reasonable when considering the location of the bank's offices and comparison to demographic information.

### Small Business Loans

The geographic distribution of the sampled small business loans is reasonable. Table 8 indicates that 15 percent by number of the bank's small business loans sampled within the assessment area were originated in moderate-income CTs. This is comparable to 2009 D&B data, which indicates that 18 percent of the assessment area's businesses were located in moderate-income CTs. D&B data from reporting businesses in 2009 indicates that approximately 82 percent of the businesses were located in the middle-income areas. In comparison, 85 percent of the loans by number were extended to small business operations located in middle-income geographies. The bank has no low- or upper-income CTs in its assessment area. Through this analysis, it appears the distribution of small business loans is reasonable based on demographics and the location of its offices.

<b>Table 8– Distribution of Small Business Loans by CT Income Level</b>					
<b>CT Income Level</b>	<b>Percent of Businesses*</b>	<b>Bank's Small Business Lending**</b>			
		<b>Number</b>	<b>Percent</b>	<b>Dollars</b>	<b>Percent</b>
Low	0%	0	0%	\$0	0%
Moderate	18%	5	15%	\$440	16%
Middle	82%	28	85%	\$2,378	84%
Upper	0%	0	0%	\$0	0%
Total	100%	33	100%	\$2,818	100%

Source: \*2009 D&B data\*\* FDIC sample from loan trial balance (dollars in 000s)

### Residential Loans

ABN's performance for 2007 and 2008 was compared to demographic information from the U.S. Census, as well as HMDA peer lending data. The bank's 2009 performance was only compared to the demographic information as HMDA aggregate information was not yet available at the time of the evaluation. Overall, the geographic distribution of the bank's HMDA-reportable loans is more than reasonable.

The analysis of the 2007 HMDA-reportable residential real estate loans in the bank's assessment area reveals that ABN is making a more than reasonable effort to lend to borrowers located in the various geographies, including the moderate-income geographies. Specifically, 19 percent of the loans reviewed by number were extended to borrowers located in moderate-income geographies. This exceeds both demographic and peer data for that area, which indicate that 18 percent of families within the area are located in moderate-income CTs. Peer data indicates that 17 percent by number of loans are being originated to borrowers located in moderate-income CTs.

<b>Table 9 – Distribution of HMDA Loans by CT Income Level</b>							
<b>CT Income Level</b>	<b>Percent of Owner-Occupied Housing Units*</b>	<b>Peer Lending**</b>		<b>Bank's 2007 HMDA Lending***</b>			
		<b>Percent by Number</b>	<b>Percent by Dollars</b>	<b>Number</b>	<b>Percent</b>	<b>Dollars</b>	<b>Percent</b>
Low	0%	0%	0%	0	0%	\$0	0%
Moderate	18%	17%	13%	69	19%	\$5,036	16%
Middle	82%	83%	87%	296	81%	\$26,490	84%
Upper	0%	0%	0%	0	0%	\$0	0%
Total	100%	100%	100%	365	100%	\$31,526	100%

Source:\* 2000 U.S. Census\*\* 2007 HMDA Aggregate Disclosure\*\*\*2007 HMDA LAR (dollars in 000s)

The analysis of the 2008 HMDA-reportable residential real estate loans in the bank's assessment area reveals that ABN is making a more than reasonable effort to lend to borrowers located in the various geographies, including the moderate-income geographies. Specifically, 20 percent of the loans reviewed by number were extended to borrowers located in moderate-income geographies. This exceeds demographics, which indicate that 18 percent of families within the area are located in moderate-income CTs, and peer data that indicates that 17 percent by number of loans are

being originated to borrowers located in moderate-income CTs.

<b>Table 10 – Distribution of HMDA Loans by CT Income Level</b>							
<b>CT Income Level</b>	<b>Percent of Owner-Occupied Housing Units*</b>	<b>Peer Lending**</b>		<b>Bank's 2008 HMDA Lending***</b>			
		<b>Percent by Number</b>	<b>Percent by Dollars</b>	<b>Number</b>	<b>Percent</b>	<b>Dollars</b>	<b>Percent</b>
Low	0%	0%	0%	0	0%	\$0	0%
Moderate	18%	17%	12%	84	20%	\$8,249	18%
Middle	82%	83%	88%	344	80%	\$37,891	82%
Upper	0%	0%	0%	0	0%	\$0	0%
Total	100%	100%	100%	428	100%	\$46,140	100%

Source: \* 2000 U.S. Census\*\* 2008 HMDA Aggregate Disclosure\*\*\*2008 HMDA LAR (dollars in 000s)

Table 11, details the bank's overall performance of originating HMDA-reportable residential real estate loans to borrowers located in the various geographies for the first, second, and third quarter of 2009. Peer lending data was not available for 2009.

The analysis of the first, second, and third quarter 2009 HMDA-reportable residential real estate loans reveals that ABN is making a reasonable effort to lend to borrowers located in the various geographies, including the moderate-income geographies. Specifically, 16 percent of the loans reviewed by number were extended to borrowers located in moderate-income geographies. This is only slightly less than demographic data for this area, which indicate 18 percent of families within the area are located in moderate-income CTs.

<b>Table 11 – Distribution of HMDA Loans by CT Income Level</b>					
<b>CT Income Level</b>	<b>Percent of Owner-Occupied Housing Units*</b>	<b>Bank's 2009 HMDA Lending**</b>			
		<b>Number</b>	<b>Percent</b>	<b>Dollars</b>	<b>Percent</b>
Low	0%	0	0%	\$0	0%
Moderate	18%	54	16%	\$5,020	11%
Middle	82%	284	84%	\$39,332	89%
Upper	0%	0	0%	\$0	0%
Total	100%	338	100%	\$44,352	100%

Source: \*2000 U.S. Census\*\*2009 LAR 1<sup>st</sup>, 2<sup>nd</sup>, and 3<sup>rd</sup> quarters (dollars in 000s)

## RESPONSE TO CRA-RELATED COMPLAINTS

The institution has not received any CRA-related complaints since the previous evaluation. Therefore, this performance criterion was not evaluated.



## II. COMMUNITY DEVELOPMENT TEST

*Under the Intermediate Small Bank Community Development Test, an institution should appropriately assess the needs in its community, engage in different types of community development activities based on those needs and the institution's capacities, and take reasonable steps to apply its community development resources strategically to meet those needs.*

*Definition of Community Development: An activity is considered to be a qualified community development activity if it meets one of following purposes: 1) affordable housing (including multifamily rental housing) for low- and moderate-income individuals; 2) community services targeted to low- and moderate-income individuals; 3) activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs or have gross annual revenues of \$1 million or less; or 4) activities that revitalize or stabilize low- or moderate-income geographies, designated disaster areas, or distressed or underserved non-metropolitan middle-income geographies designated by the Board of Governors of the Federal Reserve System, FDIC, and Office of the Comptroller of the Currency.*

As part of the Intermediate Small Institution Examination Procedures for the Community Development Test, the bank's performance is measured in several areas including community development loans, qualified investments, and community development services.

As stated at the beginning of the evaluation, the Community Development Test is rated "Satisfactory." Overall, the bank's community development performance demonstrates adequate responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services.

Also considered is the bank's capacity and constraints to participate in these activities, along with a determination of the opportunities and need for community development activities. Finally, "quantitative performance measurements" of a financial institution's community development lending are reviewed. Net loans and community development investments compared to total assets serves as an additional method of assessing a bank's financial capacity to meet the community development needs of its assessment area.

A summary of the qualifying community development loans, investments, and services performed by the bank since the last CRA evaluation, dated September 25, 2006, are shown in Tables 12, 13, and 14.

As previously mentioned, examiners used an existing community contact to identify community development opportunities, determine general credit needs of the assessment area, and assess opportunities for participation by local financial institutions. The contact stated that local lending institutions, specifically naming ABN, are actively assisting their communities.

## COMMUNITY DEVELOPMENT LENDING

*A community development loan is a loan that has as its primary purpose:*

- a) Affordable housing for low- or moderate-income individuals;*
- b) Community services targeted to low- or moderate-income individuals;*
- c) Activities that promote economic development by financing small businesses or farms; or*
- d) Activities that revitalize or stabilize low- or moderate-income (LMI) geographies, designated disaster areas, or distressed or underserved non-metropolitan middle-income geographies designated by the Board of Governors of the Federal Reserve System, FDIC, and Office of the Comptroller of the Currency.*

Overall, ABN's level of community development lending demonstrates an acceptable level of responsiveness to credit and community development needs in its assessment area. Since the prior evaluation, the bank has extended 20 new community development loans totaling \$3,699,000, see the details in Table 12.

ABN's overall ratio of community development loans to net loans, as of the September 30, 2009, Report of Condition, is less than 1 percent, which is somewhat less than the ratios of other similar financial institutions. However, this ratio is still considered adequate when comparing the opportunities to participate in the bank's assessment area and its loan-to-deposit ratio. The bank's average net loan-to-deposit ratio since the prior evaluation is 105 percent, and examiner analysis indicated that the bank does a majority of its lending through small business and residential real estate lending, which reduces the availability of loans for community development. The recent growth of the bank and the significant level of competition must also be taken into consideration. In 2008, unemployment caused all of the middle-income CTs in Itasca County to be considered distressed. The bank demonstrates strong responsiveness in the area of loans to revitalize or stabilize moderate-income or distressed middle-income CTs.

Generally, these funds were used to stabilize or grow a company, creating or saving jobs in the process. It should also be noted that several of the loans that are categorized as revitalization and stabilization loans could also be considered under the Community Services criterion.

The bank has not made any loans that qualify under the affordable housing criteria; however, management stated that there has been little opportunity given the general economic slowdown.

Table 12 – Community Development Lending										
Activity Year	Affordable Housing		Revitalization and Stabilization		Economic Development		Community Services		Grand Total	
	Number	Dollar	Number	Dollar	Number	Dollar	Number	Dollar	Number	Dollar
2007	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0
2008	0	\$0	4	\$323	0	\$0	0	\$0	4	\$323
2009	0	\$0	13	\$2,890	0	\$0	3	\$486	16	\$3,376
Totals	0	\$0	17	\$3,213	0	\$0	3	\$486	20	\$3,699

Source: Bank records (dollars in 000s)

### QUALIFIED INVESTMENTS

A qualified investment is defined as a lawful investment, deposit, membership share, or grant that has as its primary purpose:

- a) Affordable housing for low- or moderate-income individuals;
- b) Community services targeted to low- or moderate-income individuals;
- c) Activities that promote economic development by financing small businesses or farms; or
- d) Activities that revitalize or stabilize low- or moderate-income geographies, designated disaster areas, or distressed or underserved non-metropolitan middle-income geographies designated by the Board of Governors of the Federal Reserve System, FDIC, and Office of the Comptroller of the Currency.

Examiners evaluated ongoing qualified community development investments and new investments made by the bank since the last evaluation. The bank's overall ratio of community development investments since the previous public evaluation is minimal at significantly less than 1 percent of total assets. However, the bank's asset size has increased by 34 percent since the previous CRA examination, and bank management is working to manage the bank's growth in a manner consistent with safe and sound operations. Overall, the bank appears to be committed to its communities and no major concerns were noted with the low ratio of community development investments.

The total in qualified investments for ABN is currently \$43,000, comprised entirely of grants (donations). ABN has five community development investments currently outstanding that were made prior to the last CRA evaluation with book values totaling \$1,030,000. ABN's qualified investments since the prior performance evaluation are detailed in Table 13.

**Table 13 – Community Development Investments**

Activity Year	Affordable Housing		Revitalization and Stabilization		Economic Development		Community Services		Grand Total	
	Number	Dollar	Number	Dollar	Number	Dollar	Number	Dollar	Number	Dollar
2007	0	\$0	0	\$0	1	\$6	3	\$11	4	\$17
2008	0	\$0	0	\$0	1	\$3	3	\$8	4	\$11
2009	0	\$0	0	\$0	2	\$4	5	\$11	7	\$15
Totals	0	\$0	0	\$0	4	\$13	11	\$30	15	\$43

Source: Bank records (dollars in 000s)

### COMMUNITY DEVELOPMENT SERVICES

*A community development service, as defined in Part 345, means a service that has as its primary purpose community development, is related to the provision of financial services, and has not been considered in the evaluation of the bank's retail banking services. All of the bank's services that are discussed below meet the definition of a community development service.*

ABN's community development services are considered reasonable. ABN's offices have reasonable hours of operation and several branches are located in moderate-income or distressed middle-income areas. The bank maintains a Web site, provides internet banking, and operates a network of ATMs for its customers.

Furthermore, ABN offers products that could assist low- to moderate-income individuals' banking needs, such as free and low-cost deposit accounts. Table 14 displays numbers regarding employee activities qualified as community development services since the last CRA evaluation.

To obtain credit for services provided by the bank's employees the services must relate to the provision of financial services as required by the regulation. It should be noted that employees are involved in many commendable activities; however, they did not meet the requirements of the regulation as the employees were not serving as a representative of the bank.

Table 14 – Community Development Services					
Activity Year	Affordable Housing	Revitalization and Stabilization	Economic Development	Community Services	Grand Total
2007	0	0	6	0	6
2008	0	0	10	3	13

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**Intermediate Small Institution Performance Evaluation**

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2009	2	0	9	9	20
Totals	2	0	25	12	39

*Source: Bank records*

The bank has provided financial education to local schools and to the community through public and special events. Additionally, during the evaluation period, many bank staff members have played vital roles in local charitable associations; some of which are specifically geared to assisting low-income individuals. Several of these organizations include The United Way of North East Minnesota and The United Way of 1,000 Lakes. The bank is to be commended for its representation by bank staff and management on numerous local and regional economical development associations such as Iron Range Resources, Itasca Economic Development Center, and local chambers of commerce.

### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

There was no evidence of discriminatory or other illegal credit practices identified at the examination that would be inconsistent with helping to meet community credit needs.